

LA PORTE CITY UTILITIES

**INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENT
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS**

JUNE 30, 2016

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La Porte City Utilities

Board of Trustees

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Jon Barz	Trustee - Chairman	September 2019
Tami Keune	Trustee – Secretary	September 2017
Shawn Mehlert	Trustee	September 2021
Kathy Strubel	Office Manager	Indefinite

La Porte City Utilities

RFSW Ridihalgh Fuelling Snitker Weber & Co.

C E R T I F I E D P U B L I C A C C O U N T A N T S

James R. Ridihalgh, CPA
Gene L. Fuelling, CPA
Donald A. Snitker, CPA
Donald A. Weber, CPA

Independent Auditor's Report

Jeremy P. Lockard, CPA
Alan W. Flick, CPA
Brent A. Waters, CPA

To the Board of Trustees of the La Porte City Utility:

Report on the Financial Statement

We have audited the accompanying financial statement of the business type activities of the La Porte City Utilities, La Porte City, Iowa, as of and for the year ended June 30, 2016, and the related Notes to the Financial Statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of the financial statement in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Utility's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Utility's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the La Porte City Utilities as of June 30, 2016, and the changes in its cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

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Independence, Iowa 50644
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Basis of Accounting

As described in Note 1, the financial statement was prepared on the basis of cash receipts and a disbursement, which is a basis of accounting other than U.S. generally, accepted accounting principles. Our opinion is not modified with respect to this matter.

Other Matters

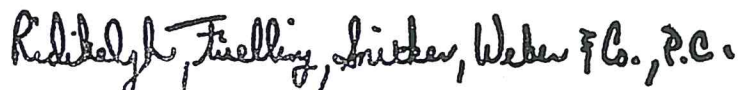
Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statement. The supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statement. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. Such information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statement itself, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statement taken as a whole.

The other information, Management's Discussion and Analysis and the Budgetary Comparison Information, the Schedule of the Utility's Proportionate Share of the Net Pension Liability and the Schedule of the Utility's Contributions on pages 7 through 11 and 23 through 28 has not been subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated January 5, 2017 on our consideration of La Porte City Utilities' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering La Porte City Utilities' internal control over financial reporting and compliance.



RIDIHALGH, FUELLING, SNITKER, WEBER, & CO., P.C., C.P.A.'S

January 5, 2017

403 Main Street, La Porte City, Iowa 50651

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MANAGEMENT DISCUSSION AND ANALYSIS

La Porte City Utilities provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2016. It is to be used in conjunction with the Utilities Annual Report, which follow.

2016 FINANCIAL HIGHLIGHTS

- The total revenues for all departments were \$2,495,848. This is a decrease of \$72,426 or 2.9% decrease from the previous year's revenues.
- The total disbursements for all departments were \$2,424,431. The decrease is \$144,142 or approximately 5.94% from the previous year's total expenses.
- Revenues exceeded disbursements resulting in a \$71,417 positive change in fund balance. The ending fund balance on June 30, 2016 was \$1,850,927.
- During the fiscal year, the Utilities began a project on Main Street and added new electrical services for Dollar General and several new houses in the Sweet Addition. Numerous breakages of water mains and valves (due to the age of the infrastructure) were repaired and/or replaced. Four new fire hydrants were also replaced due to the age of them. The water department purchased a new ¾ Ton pickup truck.
- According to our Bond Covenant, our Net Operating Revenues (Receipts less Operating Disbursements) for the electric department must be at least 120% of the year's scheduled Bond Payment. The Bond payment paid for FY2016 was \$130,000. For the year ended, Net Operating Revenues totaled \$365,987, exceeding the threshold of \$156,000. The electric rate increase implemented in June 2010 was designed to make sure we were able to meet this test.

USING THIS ANNUAL REPORT

The annual report consists of a financial statement and other information as follows:

Management's Discussion and Analysis introduces the financial statement and provides an analytical overview of the Utilities' financial activities.

The Statement of Cash Receipts, Disbursements and Changes in Cash Balance presents information on the Utilities' receipts and disbursements and whether the Utilities' cash basis financial position has improved or deteriorated as a result of the year's activities.

The Notes to the Financial Statement provide additional information essential to a full understanding of the data provided in the basic financial statement.

Other Information further explains and supports the financial statement with a comparison of the Utilities' budget for the year and the Utilities' proportionate share of the net pension liability and related contributions.

Supplementary Information provides detailed information about the individual Enterprise Fund Accounts and the Utilities' indebtedness. A multi-year comparison of the Utilities' revenues and disbursements as a whole is also provided.

BASIS OF ACCOUNTING

The Utilities maintains its financial records on the basis of cash receipts and disbursements and the financial statement of the Utilities is prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statement does not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitation resulting from the use of the cash basis of accounting.

FINANCIAL ANALYSIS OF THE LA PORTE CITY UTILITIES

Statement of Cash Receipts, Disbursements and Changes in Cash Balance

The purpose of this statement is to present the receipts received by the Utilities and the disbursements paid by the Utilities, both operating and non-operating. The statement also presents a fiscal snapshot of the Utilities' cash balance at year end. Over time, readers of the financial statement are able to determine the Utilities' financial position by analyzing the increase and decrease in cash balance. Detailed information for each fund account is shown on Schedule 1 of the Supplementary Information section.

Ending cash basis fund balance is broken down into two categories, restricted and unrestricted. The Utilities' restricted cash balance is for the repayment of revenue bonds, reserve for equipment, and customer deposits. The Utilities' unrestricted cash balance is available for use in

routine operations, distribution and administrative areas of the Utilities and for capital improvements.

A summary of cash receipts, disbursements and changes in cash balance for the years ended June 30, 2016 and June 30, 2015 is presented below:

Changes in Cash Balance			
	Year ended June 30,		
	2016	2015	Change
Receipts:			
Operating receipts:			
Charges for service	\$ 2,437,835	2,496,961	(59,126)
Miscellaneous	55,502	47,446	8,056
Non-operating receipts:			
Interest on investments	2,011	2,032	(21)
Rental income	500	893	(393)
Debt proceeds	-	2,055	(2,055)
Grant proceeds	-	18,887	(18,887)
Total receipts	2,495,848	2,568,274	(72,426)
Disbursements:			
Operating disbursements:			
Business type activities	1,776,117	1,932,942	(156,825)
Non-operating disbursements:			
Debt service	375,215	389,823	(14,608)
Capital outlay	273,099	245,808	27,291
Total disbursements	2,424,431	2,568,573	(144,142)
Change in cash balances	71,417	(299)	71,716
Cash balances beginning of year	1,779,510	1,779,809	(299)
Cash balances end of year	\$ 1,850,927	1,779,510	71,417

BUDGETARY HIGHLIGHTS

Over the course of the year, the Utilities amended its budget once. The amendment was approved in May 12, 2016 and allowed for the following changes:

Electric department

Revenue:

Revenues remained fairly consistent to what was budgeted. We also showed a slight increase in service charges to customers.

Expenses:

Increased due to maintenance for the power plant building. The Utilities also purchased additional electric meters. Slight decrease in purchased power due to weather being mild in the winter months.

Water department

Revenue:

Revenues remained fairly consistent to what was budgeted. The sales for commercial need to be adjusted in next budget to have the meter base sales in its own line items.

Expenses:

We experienced an increase to the pump equipment due to repairs needed and not budgeted for. The department also ordered more water meters than originally budgeted for.

DEBT ADMINISTRATION

During fiscal year 2011 and 2013, the Utilities issued water revenue capital loan notes of \$3,000,000 and \$600,000, respectively. In fiscal year 2014, the Utilities issued an electric revenue capital loan note in the amount of \$1,100,000. As of June 30, 2016, the Utilities had a total of \$3,685,000 in Revenue Notes outstanding. The Utilities paid \$270,000 of principal and \$105,215 of interest on these notes in fiscal year 2016.

NEXT YEAR'S BUDGET AND RATES

The Utilities administration and Board members consider many factors when setting the Fiscal Year 2017-18 budget.

- According to our Bond Covenant, our projected Net Operating Revenues (Receipts less Operating Disbursements) for the Electric Department must be at least 120% of that year's scheduled Bond Payment. At the time of budgeting, the bond payment due in 2017 is \$130,000.00. That means we are required to have Net Operating Revenues in the Electric Department of at least \$156,000. As of the 2016 audited year, we show sufficient revenues to be able to make this test.
- The remaining items were budgeted fairly consistent compared to those of the 2016 fiscal year. There were minor increases in the electric service charges due to a rate restructure. We also budgeted for a new truck in the water department. Other increases in salary and benefits were made to reflect percentage increases.

CONTACTING THE UTILITIES FINANCIAL MANAGEMENT

This financial report is designed to provide our customers and creditors with a general overview of the Utilities' finances and to show the Utilities are accountable for the money it receives. If you have questions about this report or need additional financial information, contact Kathy Strubel, La Porte City Utilities Office Manager, 403 Main Street, La Porte City, Iowa.

Financial Statement

Exhibit A

La Porte City Utilities

Statement of Cash Receipts, Disbursements
and Changes in Cash Balance

As of and for the year ended June 30, 2016

Operating receipts:	
Charges for service	\$ 2,437,835
Miscellaneous	55,502
	<hr/>
Total operating receipts	2,493,337
	<hr/>
Operating disbursements:	
Business type activities	1,776,117
	<hr/>
Total operating disbursements	1,776,117
	<hr/>
Excess of operating receipts over operating disbursements	717,220
	<hr/>
Non-operating receipts (disbursements):	
Interest on investments	2,011
Rental income	500
Debt proceeds	-
Grant proceeds	-
Debt service	(375,215)
Capital outlay	(273,099)
	<hr/>
Total non-operating receipts (disbursements)	(645,803)
	<hr/>
Change in cash balances	71,417
	<hr/>
Cash balances beginning of year	1,779,510
	<hr/>
Cash balances end of year	\$ 1,850,927
	<hr/>
Cash Basis Fund Balances	
Restricted for:	
Debt service	\$ -
Reserve account	378,798
Customer deposits	9,882
Total restricted cash basis fund balance	388,680
Unrestricted	1,462,247
	<hr/>
Total cash basis fund balances	\$ 1,850,927
	<hr/>

See notes to financial statements

Notes to the Financial Statement

La Porte City Utilities

Notes to Financial Statements

June 30, 2016

(1) Summary of Significant Accounting Policies

A. Reporting Entity

The La Porte City Utilities is a component unit of the City of La Porte City, Iowa, as determined by criteria specified by the Governmental Accounting Standards Board. The Utility is a legally separate organization, which has the authority to modify and approve its budget, modify and approve its rates, and is not dependent on any other organization. The Utilities' trustees are appointed by the mayor of the City of La Porte City, and they are approved by the City Council.

For financial reporting purposes, the La Porte City Utilities has included all funds.

B. Basis of Presentation

The accounts of the Utility are organized as an Enterprise Fund. Enterprise Funds are utilized to finance and account for the acquisition, operation and maintenance of governmental facilities and services supported by user charges.

C. Basis of Accounting

The Utility maintains its financial records on the basis of cash receipts and disbursements and the financial statement of the Utility is prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statement does not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

D. Fund Balance

Funds are set aside for bond principal and interest payments and customer water deposits are classified as restricted.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information.

(2) Cash and Pooled Investments

The Utility's deposits in banks at June 30, 2016 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Utility is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at

federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Utility held investments in a credit union which are valued at \$37,336 and are collateralized with letters of credit held by the Utility in accordance with Chapter 12C of the Code of Iowa.

In addition, the Utility had investments in the Iowa Public Agency Investment Trust, which are valued at an amortized cost of \$49,815 pursuant to Rule 2a-7 under the Investment Company Act of 1940 and are not subject to risk categorization.

(3) Revenue Bonds and Loans Payable

Annual debt service requirements to maturity for revenue notes are as follows:

Year Ending June 30,	Interest	Principal	Total
2017	\$99,590	274,000	373,590
2018	93,520	278,000	371,520
2019	87,005	287,000	374,005
2020	79,945	298,000	377,945
2021	72,268	302,000	374,268
2022-2026	242,223	1,187,000	1,429,223
2027-2031	93,356	1,038,000	1,131,356
2032	368	21,000	21,368
Total	<u>\$768,275</u>	<u>3,685,000</u>	<u>4,453,275</u>

On August 25, 2010 the Utility was awarded Water Revenue Capital Loan Notes, Series 2010 through the Iowa State Revolving Fund Loan Program. The Utility was authorized to disburse up to \$3,000,000 from these notes, the purpose of which are for paying costs associated with acquisition, construction, reconstruction, extending, remodeling, improving, repairing and equipping the La Porte City Municipal Water Utility. As of June 30, 2016 a total of \$3,000,000 had been disbursed from the Loan Notes. Principal payments of \$124,000 and \$76,290 of interest payments were made during the year.

On July 11, 2012 the Utility was awarded Water Revenue Capital Loan Notes, Series 2012 through the Iowa State Revolving Fund Loan Program. The Utility was authorized to disburse up to \$600,000 from these notes, the purpose of which are for paying costs associated with acquisition, construction, reconstruction, extending, remodeling, improving, repairing and equipping the La Porte City Municipal Water Utility. As of June 30, 2016 a total of \$375,370 had been disbursed from the Loan Notes. Principal payments of \$16,000 and \$5,460 of interest payments were made during the year. The project has been completed and no further disbursements are expected.

On July 10, 2013 the Utility was awarded Electric Revenue Capital Loan Notes, Series 2013. The Utility was authorized to disburse up to \$1,100,000 from these notes, the purpose of which are for paying costs associated with acquisition, construction, reconstruction, extending, remodeling, improving, repairing and equipping the La Porte City Municipal Water Utility. As of June 30, 2016 a total of \$1,100,000 had been disbursed from the Loan Notes. Principal payments of \$130,000 and \$23,465 of interest payments were made during the year.

The resolutions providing for the issuance of the revenue notes include the following provisions.

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a separate electric revenue bond sinking account within the Enterprise Funds for the purpose of making the note principal and interest payments when due.
- (c) Additionally, a reserve account within the Enterprise Funds shall be maintained. This account is restricted for the purpose of paying for any additional improvements, extensions or repairs to the system.

(4) Pension Plan

Plan Description - IPERS membership is mandatory for employees of the Utility, except for those covered by another retirement system. Employees of the Utility are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive P.O. Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits – A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, anytime after reaching age 62 with 20 or more years of covered employment or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. These qualifications must be met on the member's first month of entitlement to benefits. Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier based on years of service.
- The member's highest five-year average salary, except members with service before June 30, 2012 will use the highest three-year average salary as of that date if it is greater than the highest five-year average salary.

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25 percent for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50 percent for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits - A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions - Contribution rates are established by following the annual actuarial valuation which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. Statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2016, pursuant to the required rate, Regular members contributed 5.95 percent of covered payroll and the Utility contributed 8.93 percent of covered payroll, for a total rate of 14.88 percent.

The Utility's contributions to IPERS for the year ended June 30, 2016 were \$28,266.

Net Pension Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2016, the Utility had a liability of \$228,261 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Utility's proportion of the net pension liability was based on the Utility's share of contributions to the IPERS relative to the contributions of all IPERS participating employers. At June 30, 2015, the Utility's proportion was 0.004620 percent, which was a decrease of 0.000121 percent from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016 the Utility's pension expense, deferred outflows of resources and deferred inflows of resources totaled \$19,250, \$43,886 and \$53,150 respectively.

Actuarial Assumptions - The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement:

Rate of inflation	
(effective June 30, 2014)	3.00% per annum.
Rates of salary increase	4.00 to 17.00% average, including inflation.
(effective June 30, 2010)	Rates vary by membership group.
Long-term investment rate of return	7.50% compounded annually, net of investment
(effective June 30, 1996)	expense, including inflation.
Wage growth	4.00% per annum, based on 3.00% inflation
(effective June 30, 1990)	and 1.00% real wage inflation.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on IPERS investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return
Core plus fixed income	28%	2.04%
Domestic equity	24	6.29
International equity	16	6.75
Private equity/debt	11	11.32
Real estate	8	3.48
Credit opportunities	5	3.63
U.S. TIPS	5	1.91
Other real assets	2	6.24
Cash	1	(0.71)
Total	100%	

Discount Rate - The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed employee contributions will be made at the contractually required rate and contributions from the Utility will be made at contractually required rates, actuarially determined. Based on those assumptions, IPERS' fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on IPERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Utility's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the Utility's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the Utility's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate.

	1% Decrease 6.5%	Discount Rate 7.5%	1% Increase 8.5%
Utility's proportionate share of the net pension liability	\$399,643	\$228,261	\$83,601

IPERS Fiduciary Net Position - Detailed information about IPERS' fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

(5) Other Postemployment Benefits (OPEB)

Plan Description - The Utility operates a single-employer benefit plan which provides medical/prescription drug benefits for employees and retirees. There are 5 active and 1 retired members in the plan. Participants must be age 55 or older at retirement to be eligible.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 would pay the full cost of the premium for the medical/prescription drug benefits.

Funding Policy - The contribution requirements of plan members are established and may be amended by the Utility. The Utility pays for 100% of the monthly premiums for active employees. For the year ended June 30, 2016, the Utility paid \$68,285 on behalf of active employees and \$13,325 for the retired employee, which was reimbursed to the Utility from the retired employee.

(6) Compensated Absences

Utility employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the Utility until used or paid. The Utility's approximate liability for earned compensated absences payable to employees at June 30, 2016 is \$9,684. This liability has been computed based on rates of pay in effect at June 30, 2016.

(7) Intrafund Transfers

The detail of intrafund transfers for the year ended June 30, 2016 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Electric	\$ 153,965
	Water	<u>228,888</u>
		382,853
Water	Capital Improvement Reserve	<u>70,960</u>
Total		\$ <u>453,813</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(8) Lease Purchase Agreements

The Utility entered into a lease purchase agreement for equipment on July 15, 2015. The agreement calls for monthly lease payments of \$3,405 for 48 months with a \$1 option to purchase at the end of the lease term. The amount paid for the fiscal year ended June 30, 2016 was \$40,860. Future payments are scheduled as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2017	40,860
2018	40,860
2019	<u>6,810</u>
Total	\$ 88,530

(9) Risk Management

The Utility is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Utility assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past four fiscal years.

(10) Contracts and Commitments

At June 30, 2016, the Utility had an outstanding contract with the Iowa Department of Transportation (IDOT) for \$375,000 on an old Commercial Street project. The IDOT has not billed the City for the completion of the contract as of the issuance of this report.

(11) Subsequent Events

There were no subsequent events through January 5, 2017, the date of the audit report.

(12) New Accounting Pronouncement

The Utility Department adopted fair value guidance as set forth in Governmental Accounting Standards Board Statement No. 72, Fair Value Measurement and Application. The Statement sets forth guidance for determining and disclosing the fair value of assets and liabilities reported in the financial statements. Adoption of the guidance did not have a significant impact on amounts reported or disclosed in the financial statements.

Other Information

La Porte City Utilities
 Budgetary Comparison Schedule
 of Receipts, Disbursements, and Changes in Balance
 Budget and Actual (Cash Basis)

Other Information

Year ended June 30, 2016

	Proprietary Funds Actual	Budgeted Amounts		Final to Net Variance
		Original	Final	
Receipts:				
Use of money and property	\$ 2,511	5,560	4,545	(2,034)
Charges for service	2,437,835	3,465,440	2,347,315	90,520
Miscellaneous	55,502	116,000	124,000	(68,498)
Total receipts	2,495,848	3,587,000	2,475,860	19,988
Disbursements:				
Business type activities	2,424,431	2,462,628	2,462,788	38,357
Total disbursements	2,424,431	2,462,628	2,462,788	38,357
Excess (deficiency) of operating receipts over (under) operating disbursements	71,417	1,124,372	13,072	58,345
Other financing sources (uses), net	-	(40,860)	-	-
Excess (deficiency) of receipts and other financing sources (uses) over (under) disbursements and other financing sources (uses)	71,417	1,083,512	13,072	58,345
Balances beginning of year	1,779,510	2,816,511	2,816,511	1,037,001
Balances end of year	\$ 1,850,927	3,900,023	2,829,583	1,095,346

See accompanying independent auditor's report.

La Porte City Utilities
Notes to Other Information – Budgetary Reporting
June 30, 2016

The La Porte City Utilities prepares a budget on the cash basis of accounting and submits it to the City Council. In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon classes of disbursements known as functions, not by fund. The Utility's disbursements are budgeted in the business type activities function. During the year, one budget amendment reduced budgeted disbursements by \$13,072. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2016, disbursements did not exceed the amount budgeted.

La Porte City Utilities
Schedule of the Utility's Proportionate Share of the Net Pension Liability

Iowa Public Employees' Retirement System
Last Two Fiscal Years*

Other Information

	2016	2015
Utility's proportion of the net pension liability	0.462020%	0.004741%
Utility's Proportionate share of the net pension liability	\$ 228,261	\$ 188,018
Utility's covered-employee payroll	\$ 327,459	\$ 316,413
Utility's Proportionate share of the net pension liability as a percentage of its covered-employee payroll	69.71%	59.42%
Plan fiduciary net position as a percentage of the total pension liability	85.19%	87.61%

* In accordance with GASB Statement No. 68, the amounts presented for each fiscal year were determined as of June 30 of the preceding fiscal year.

See accompanying independent auditor's report.

La Porte City Utilities
Schedule of Utility Contributions

Iowa Public Employees' Retirement System
Last 4 Fiscal Years

Other Information

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Statutorily required contribution	\$ 29,242	28,255	27,703	24,932
Contributions in relation to the statutorily required contribution	<u>(29,242)</u>	<u>(28,255)</u>	<u>(27,703)</u>	<u>(24,932)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>
Utility's covered-employee payroll	327,459	316,413	310,222	287,564
Contributions as a percentage of covered-employee payroll	8.93%	8.93%	8.93%	8.67%

Note: GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the Utility will present information for those years for which information is available.

See accompanying independent auditor's report.

La Porte City Utilities
Notes to Other Information – Pension Liability
June 30, 2016

Changes of benefit terms:

Legislation passed in 2010 modified benefit terms for current Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3 percent per year measured from the member's first unreduced retirement age to a 6 percent reduction for each year of retirement before age 65.

Legislative action in 2008 transferred four groups – emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers – from Regular membership to the protection occupation group for future service only.

Changes of assumptions:

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25 percent to 3.00 percent.
- Decreased the assumed rate of interest on member accounts from 4.00 percent to 3.75 percent per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included in the calculation of the UAL amortization payments the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate.

Supplementary Information

La Porte City Utilities
Combining Schedule of Cash Receipts, Disbursements And
Changes in Cash Balances
Enterprise Fund Accounts

As of and for the year ended June 30, 2016

	Electric	Water	Capital Improv Reserve	Debt Service	Meter Deposit
Operating receipts:					
Charges for service	\$ 1,871,544	566,291	-	-	-
Miscellaneous	52,264	2,217	1,021	-	-
Total operating receipts	1,923,808	568,508	1,021	-	-
Operating disbursements:					
Business type activities	1,557,821	210,658	-	7,638	-
Total operating disbursements	1,557,821	210,658	-	7,638	-
Excess (deficiency) of operating receipts over (under) operating disbursements	365,987	357,850	1,021	(7,638)	-
Non-operating receipts (disbursements):					
Interest on investments	317	1,001	-	-	2
Rental income	-	500	-	-	-
Debt proceeds	-	-	-	-	-
Grant proceeds	-	-	-	-	-
Debt service	-	-	-	(375,215)	-
Capital Outlay	(156,183)	(116,916)	-	-	-
Total non-operating receipts (disbursements)	(155,866)	(115,415)	-	(375,215)	2
Excess (deficiency) of receipts over (under) disbursements	210,121	242,435	1,021	(382,853)	2
Operating transfers in	-	70,960	-	382,853	-
Operating transfers out	(153,965)	(228,888)	(70,960)	-	-
Total transfers in (out)	(153,965)	(157,928)	(70,960)	382,853	-
Change in cash balances	56,156	84,507	(69,939)	-	2
Cash balances beginning of year	729,870	591,714	338,475	-	9,880
Cash balances end of year	\$ 786,026	676,221	268,536	-	9,882
Cash Basis Fund Balances					
Restricted for:					
Debt service	\$ -	-	-	-	-
Reserve account	-	-	268,536	-	-
Customer deposits	-	-	-	-	9,882
Unrestricted	786,026	676,221	-	-	-
Total cash basis fund balances	\$ 786,026	676,221	268,536	-	9,882

See notes to financial statements

Schedule 1

Diesel Generator Improvement	Diesel Engine Reserve	Diesel Engine 2013	Total
-	-	-	2,437,835
-	-	-	55,502
-	-	-	2,493,337
-	-	-	1,776,117
-	-	-	1,776,117
-	-	-	717,220
-	673	18	2,011
-	-	-	500
-	-	-	-
-	-	-	-
-	-	-	(375,215)
-	-	-	(273,099)
-	673	18	(645,803)
-	673	18	71,417
-	-	-	453,813
-	-	-	(453,813)
-	-	-	-
-	673	18	71,417
10,000	96,089	3,482	1,779,510
10,000	96,762	3,500	1,850,927
-	-	-	-
10,000	96,762	3,500	378,798
-	-	-	9,882
-	-	-	1,462,247
10,000	96,762	3,500	1,850,927

La Porte City Utilities

Schedule of Indebtedness

Year ended June 30, 2016

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
Utility Revenue Notes -			
Water Revenue Capital Loan Note	August 25, 2010	3%	\$ 3,000,000
Water Revenue Capital Loan Note	July 11, 2012	2%	600,000
Electric Revenue Capital Loan Notes	July 10, 2013	1.25% - 2.9%	<u>1,100,000</u>
			<u>\$ 4,700,000</u>

See accompanying independent auditor's report

Schedule 2

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
2,543,000	-	124,000	2,419,000	76,290
312,000	-	16,000	296,000	5,460
1,100,000	-	130,000	970,000	23,465
3,955,000	-	270,000	3,685,000	105,215

La Porte City Utilities

Note Maturities

June 30, 2016

Year Ending June 30,	Water Revenue Capital			Water Revenue Capital		
	Loan Notes, Series 2010			Loan Notes, Series 2012		
	Issued August 25, 2010			Issued July 11, 2012		
	Interest Rates	Interest	Principal	Interest Rates	Interest	Principal
2017	3.00%	\$ 72,570	128,000	1.75%	5,180	16,000
2018	3.00%	68,730	132,000	1.75%	4,900	16,000
2019	3.00%	64,770	136,000	1.75%	4,620	16,000
2020	3.00%	60,690	141,000	1.75%	4,340	17,000
2021	3.00%	56,460	145,000	1.75%	4,043	17,000
2022	3.00%	52,110	150,000	1.75%	3,745	18,000
2023	3.00%	47,610	155,000	1.75%	3,430	18,000
2024	3.00%	42,960	160,000	1.75%	3,115	18,000
2025	3.00%	38,160	165,000	1.75%	2,800	19,000
2026	3.00%	33,210	170,000	1.75%	2,468	19,000
2027	3.00%	28,110	176,000	1.75%	2,132	19,000
2028	3.00%	22,830	181,000	1.75%	1,803	20,000
2029	3.00%	17,400	187,000	1.75%	1,453	20,000
2030	3.00%	11,790	193,000	1.75%	1,103	21,000
2031	3.00%	6,000	200,000	1.75%	735	21,000
2032		-	-	1.75%	368	21,000
		<u>\$ 623,400</u>	<u>2,419,000</u>		<u>46,235</u>	<u>296,000</u>

See accompanying independent auditor's report.

Schedule 3

Electric Revenue Capital				
Loan Notes, Series 2013				
Issued July 10, 2013				
Interest Rates	Interest	Principal	Totals	
			Interest	Principal
1.50%	21,840.00	130,000.00	99,590.00	274,000.00
1.75%	19,890.00	130,000.00	93,520.00	278,000.00
2.00%	17,615.00	135,000.00	87,005.00	287,000.00
2.25%	14,915.00	140,000.00	79,945.00	298,000.00
2.50%	11,765.00	140,000.00	72,268.00	302,000.00
2.70%	8,265.00	145,000.00	64,120.00	313,000.00
2.90%	4,350.00	150,000.00	55,390.00	323,000.00
	-	-	46,075.00	178,000.00
	-	-	40,960.00	184,000.00
	-	-	35,678.00	189,000.00
	-	-	30,242.00	195,000.00
	-	-	24,633.00	201,000.00
	-	-	18,853.00	207,000.00
	-	-	12,893.00	214,000.00
	-	-	6,735.00	221,000.00
	-	-	368.00	21,000.00
	98,640	970,000	768,275	3,685,000

La Porte City Utilities

Schedule of Receipts by Source and Disbursements By Function
All Proprietary Funds

For the Last Ten Years

	2016	2015	2014	2013
Receipts:				
Charges for service	2,437,835	\$ 2,496,961	2,579,526	2,480,153
Use of money and property	3,532	2,925	3,334	4,720
Grant Proceeds	-	18,887	-	-
Miscellaneous	54,481	47,446	75,419	47,446
Loan proceeds	-	2,055	1,226,816	1,121,950
Total	<u>2,495,848</u>	<u>\$ 2,568,274</u>	<u>3,885,095</u>	<u>3,654,269</u>
Disbursements:				
Business-type	1,776,117	\$ 1,932,942	3,617,321	3,377,499
Debt service	375,215	389,823	-	-
Capital Outlay	273,099	245,808	-	-
Total	<u>2,424,431</u>	<u>\$ 2,568,573</u>	<u>3,617,321</u>	<u>3,377,499</u>

See accompanying independent auditor's report

Schedule 4

2012	2011	2010	2009	2008	2007
2,404,707	2,492,561	1,774,921	1,653,284	1,699,041	1,638,317
3,979	4,230	9,628	22,920	39,959	47,018
-	-	-	-	-	-
37,445	806,696	100,511	83,983	143,393	85,755
1,150,972	734,703	153,028	54,900	881,080	-
<u>3,597,103</u>	<u>4,038,190</u>	<u>2,038,088</u>	<u>1,815,087</u>	<u>2,763,473</u>	<u>1,771,090</u>
3,116,952	3,398,063	2,033,993	1,914,276	1,782,609	1,479,790
313,669	153,249	147,255	148,230	1,019,635	154,595
-	-	-	-	-	-
<u>3,430,621</u>	<u>3,551,312</u>	<u>2,181,248</u>	<u>2,062,506</u>	<u>2,802,244</u>	<u>1,634,385</u>

**Independent Auditor's Report on Internal Control over Financial
Reporting and on Compliance and Other Matters Based on an
Audit of a Financial Statement Performed in Accordance with
Government Auditing Standards**

RFSW Ridihalgh Fuelling Snitker Weber & Co.

C E R T I F I E D P U B L I C A C C O U N T A N T S

James R. Ridihalgh, CPA

Gene L. Fuelling, CPA

Donald A. Snitker, CPA

Donald A. Weber, CPA

Jeremy P. Lockard, CPA

Alan W. Flick, CPA

Brent A. Waters, CPA

Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of a Financial Statement Performed in Accordance with
Government Auditing Standards

To the Board of Trustees of the La Porte City Utilities:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in the Government Auditing Standards, issued by the Comptroller General of the United States, the financial statement of the La Porte City Utilities, as of and for the year ended June 30, 2016, and the related Notes to the Financial Statement, and have issued our report thereon dated January 5, 2017. Our report expressed an unmodified opinion on the financial statement which was prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the La Porte City Utilities' internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the La Porte City Utilities' internal control. Accordingly, we do not express an opinion on the effectiveness of the La Porte City Utilities' internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified deficiencies in internal control we consider to be material weaknesses and a significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the La Porte City Utilities financial statement will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control described in the accompanying Schedule of Findings as item (A) to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings as item (B) to be a significant deficiency.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the La Porte City Utilities' financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the Utility's operations for the year ended June 30, 2016 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statement of the Utility. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal-matters are not intended to constitute legal interpretations of those statutes.

La Porte City Utilities' Responses to the Findings

The La Porte City Utilities' responses to findings identified in our audit are described in the accompanying Schedule of Findings. The Utilities' responses were not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the Utility's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Utility's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of La Porte City Utilities during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


RIDIHALGH, FUELLING, SNITKER, WEBER, & CO., P.C., CPA'S

January 5, 2017

La Porte City Utilities

Schedule of Findings

June 30, 2016

Finding Related to the Financial Statement:

INTERNAL CONTROL DEFICIENCIES:

- (A) Segregation of Duties – Management is responsible for establishing and maintaining internal control. A good system of internal control provides for adequate segregation of duties so no one individual handles a transaction from its inception to completion. In order to maintain proper internal control, duties should be segregated so that authorization, custody and recording of transactions are not under the control of the same employee. This segregation of duties helps prevent losses from employee error or dishonesty and maximizes the accuracy of the Utility's financial statement.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the Utility should review its control procedures to obtain the maximum internal control possible under the circumstances. The Utility should utilize current personnel and officials to provide additional control through review of financial transactions, reconciliations and reports. Such reviews should be performed by independent persons and should be documented by the signature or initials of the reviewer and the date of the review.

Response – We will continue to review and monitor ways to improve segregation of duties.

Conclusion – Response acknowledged.

- (B) Preparation of Financial Statements - The La Porte City Utilities does not employ an accounting staff with the technical expertise to prepare its financial statement (including footnote disclosures) in conformity with accounting principles generally accepted in the United States of America; therefore, it relies on its auditors to prepare such statements.

Response – The Utility feels that having the auditor's draft the financial statement and notes is a tolerable situation. Internal financial statements are prepared monthly for reporting and decision making purposes. The requirements and form of the audited statements are different than the internal needs and change occasionally. Given the size of the organization, it is helpful to rely on the expertise of the auditors to monitor those requirements.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

La Porte City Utilities

Schedule of Findings

June 30, 2016

Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2016 did not exceed the amounts budgeted.
- (2) Questionable Disbursements – We believe all disbursements met the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- (3) Travel Expense – No disbursements of Utility money for travel expenses of spouses of Utility officials or employees were noted.
- (4) Business Transactions – There were no business transactions between the Utility and Utility officials or employees.
- (5) Bond Coverage – Surety bond coverage of Utility officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- (6) Board of Trustee Minutes – No transactions were found that we believe should have been approved in Trustee Minutes.
- (7) Deposits and Investments – We noted no instances of non-compliance with the deposit and investment provisions of chapter 12B and 12C of the Code of Iowa and the Utility's investment policy.
- (8) Revenue Notes – No instances of non-compliance with the revenue bond requirements for the year ended June 30, 2016 were noted.